

HOW TO TACKLE YOUR YEAR-END FINANCIALS & PREPARE FOR THE YEAR AHEAD

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TOPICS COVERED

- Closing your books
- Recording year-end accruals
- Running internal financial reports
- Preparing for an audit/review or compiled financial statements
- Year-End Tax Planning
- Passthrough Entity Tax Elections
- Arizona Tax Rate Changes

CLOSING YOUR BOOKS

- Compare your prior year retained earnings to your prior year tax return and make sure it rolls correctly
 - If it does not roll, make sure journal entries recommended by your CPA were made
- Make sure your bank reconciliations are up to date
- If you are on an accrual basis of accounting
 - Make sure all or your subledgers (Accounts receivable, prepaids, inventory, PPE, Accounts payable, accruals...) reconcile to your trial balance
 - Confirm consistent accruals are made compared to the prior year
- Prepare an equity statement and make sure it agrees to your trial balance

RECORDING YEAR-END ACCRUALS

- Learn from the past, a best practice is reviewing prior year-end accruals as well as any adjustments proposed by your accountants and ensuring the same accruals are considered for this year-end close
- Common accruals:
 - Compensation (payroll, bonus, benefits, vacation, 401k, commission accruals)
 - General expenses (professional services, rent, inventory, credit cards, interest, income and property taxes)
- Deferred revenue, any reserves (warranty, inventory, accounts receivable)
- Prepaid expenses

RUNNING INTERNAL FINANCIAL REPORTS

- Identifying every single one of your business's financial transactions (for example, the payment amount, the payee, and the reason for the payment) can ensure a smooth-running accounting process
- Review the ledger and journal entries line by line to see where any error or errors may have occurred
- As you finish adjusting entries and you reach the end of the accounting period, prepare a financial statement that includes your adjusted trial balance alongside all relevant statements
- This provides external entities—like banks and regulators—as well as your own internal financial review team with the most accurate picture possible of your business's overall financial status

PREPARING FOR AN AUDIT/REVIEW OR COMPILED FINANCIAL STATEMENTS

- Ensure all of your reconciliations are complete
- Have a year-end planning meeting with your accountant prior to year-end
- Review any requests from your accountant and gather the relevant information to send to your accountant
- Communicate any deviations from agreed upon timeline
- Once the trial balance is final, it's time to take all the information from your temporary accounts—the ones affecting just this accounting period—and close the year.

YEAR-END TAX PLANNING

- **Bonus Depreciation**
 - 100% for 2022 Asset under 20 Year Life
 - 20% reduction each year until Bonus is 0%
- **S-Corporation Election**
 - No Self-Employment Tax
 - Must have a reasonable compensation (W-2)
 - Pro-Rata Allocation of income
- **Qualified Business Deduction**
 - 20% deduction for passthrough income
- **Retirement Planning**
 - SEP – Deduction for Contributions up to 20% of self-employment income
 - SIMPLE Plan – For S-Corps, Pre-tax contributions on employee side and deduction on employer side

PASSTHROUGH ENTITY TAX ELECTION

- Tax Cuts and Jobs Act limited the amount of State Tax Deduction allowed on an individual return to \$10,000 per year
- Election on S-Corporations and Partnerships to pay state tax at the entity level and get the deduction from ordinary income effectively allowing excess state tax deductions
- AZ non-refundable Credit

ARIZONA TAX RATE CHANGES

- 2022 legislation updated tax brackets from four tax rates to two. 2.55% for income up to \$27,272 (\$54,544 for married filing joint). Any excess income is taxed at 2.98%
- Flat tax of 2.5% for 2023 and beyond.



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CONTACT US!

Please don't hesitate to reach out if you have questions.